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ANNUAL REPORT
THE KROGER CO.

Fiscal Year 1947

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Chairman of the Board

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President, The Shepard Elevator Co.

JOHN H. SADLER
Secretary

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commerical National Bank and Trust Company of New York, New York

February 6, 1948

TO THE SHAREHOLDERS:

The Kroger Co. had a good year in 1947. The net income, after provision for reserves and federal taxes, was \$9,610,976 or \$5.23 per share, as compared to \$5.10 for 1946.

There has been transferred \$2,500,000 from Current Earnings to Accumulated Earnings Appropriated for Contingencies, which it is hoped will anticipate any extraordinary decline in inventory values.

Sales of \$754,282,085 exceeded those of the previous year by 31%. This increase in sales permitted your company to absorb \$15,000,000 of increased operating costs, of which \$13,000,000 was an increase in wages and salaries. The increase in gross profit dollars was due to this increased sales volume and not to an increased profit percentage which, in fact, was lower than in previous years. The company has maintained its traditional policy of achieving volume sales through low prices.

Inventories at the year-end were \$64,710,122, an increase of only \$1,684,196 or 2.7% over 1946. Retail inventories represented 26 days' supply of merchandise as compared to 27 days' supply at the end of 1946, reflecting the company's policy of holding inventories to a minimum during the present period of inflated prices.

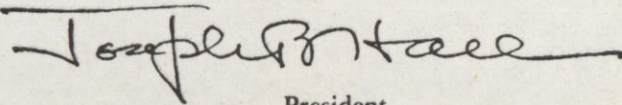
The company's working capital position continues strong. The normal seasonal increase in inventory necessitated bank loans, which at the peak totalled \$11,000,000. These loans were reduced to \$7,000,000 by the year-end and have since been further reduced to \$4,000,000.

Release of restrictions and availability of equipment and building material have enabled the company to continue with its program of consolidating and modernizing stores, a program which will be continued in 1948. Several miscellaneous properties not utilized in the business were disposed of profitably during the year. The company's shrimp plant and equipment at Palacios, Texas, was sold at a price in excess of book value.

Mr. John M. Lockhart was elected Vice-President and Mr. William E. Carter appointed General Manager of Operations. Mr. Lockhart, who will be in charge of financial phases of our business, was formerly Treasurer of Trans World Airline. Mr. Carter, a thirty-year veteran of the grocery business and a Kroger employee since 1930, was promoted from his former position of Manager of the Northern Division.

We cannot commend too highly all of the employees on the Kroger team who cooperated so well to produce the fine results of the year.

Respectfully submitted,



President

CONSOLIDATED BALANCE SHEET

ASSETS

Cash on hand and demand deposits	\$ 20,611,352
Receivables	3,693,736
Inventories of merchandise, at lower of cost or market	64,710,122
Store and general supplies	2,429,649
Prepaid insurance, rent and taxes	<u>657,418</u>

TOTAL CURRENT ASSETS 92,102,277

Investment in subsidiary insurance company not consolidated, at cost	1,518,137
Stocks in other companies	93,933

FIXED ASSETS:

Land	\$ 1,222,217		
Buildings	\$ 9,157,506		
Machinery and equipment, at cost	<u>32,534,180</u>		
	41,691,686		
Less allowance for depreciation and obsolescence	<u>24,295,521</u>	<u>17,396,165</u>	<u>18,618,382</u>

TOTAL ASSETS \$112,332,729

ODGER Co.

HEET - DECEMBER 27, 1947

LIABILITIES

Notes payable, banks	\$ 7,000,000
Accounts payable	16,629,664
Accrued expenses	7,139,072
Provision for Federal taxes, current and prior years	10,888,174
Dividends payable	<u>10,857</u>
TOTAL CURRENT LIABILITIES	41,667,767

Employees Benefit Fund	2,100,000
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CAPITAL

Preferred capital stock, par \$100:

First preferred, 6%, 476 shares outstanding ...	\$ 47,600	
Second preferred, 7%, 377 shares outstanding	<u>37,700</u>	\$ 85,300

Common capital stock without par value:

Authorized 3,000,000 shares	
Outstanding 1,836,589 shares	33,671,735

Accumulated earnings:

Unappropriated	28,129,835		
Appropriated for contingencies	<u>6,678,092</u>	<u>34,807,927</u>	<u>68,564,962</u>

TOTAL LIABILITIES & CAPITAL	\$112,332,729
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CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED EARNINGS

Fiscal Years Ended December 27, 1947 and December 28, 1946

	<u>1947</u>	<u>1946*</u>
Sales	\$754,282,085	\$573,760,884
Cost of sales.....	<u>649,017,666</u>	<u>483,960,041</u>
	105,264,419	89,800,843
Operating and general expenses.....	<u>83,549,121</u>	<u>68,479,507</u>
Profit from operations.....	21,715,298	21,321,336
Non-operating income and expenses.....	<u>441,678</u>	<u>(184,056)</u>
Income before Federal taxes on income.....	22,156,976	21,137,280
Federal taxes on income.....	<u>8,537,000</u>	<u>8,271,500</u>
Net income	<u>13,619,976</u>	<u>12,865,780</u>
Provision for earned vacation pay—prior years.....	1,409,000	
Provision for employee retirement benefits.....	100,000	2,000,000
Accumulated earnings appropriated for contingencies.....	<u>2,500,000</u>	<u>1,500,000</u>
	<u>4,009,000</u>	<u>3,500,000</u>
Balance of net income.....	9,610,976	9,365,780
Dividends declared during the year.....	<u>5,519,409</u>	<u>4,597,299</u>
Balance of income transferred to accumulated earnings....	4,091,567	4,768,481
Accumulated earnings unappropriated—at beginning of year	<u>24,038,268</u>	<u>19,269,787</u>
Accumulated earnings unappropriated—at end of year.....	<u><u>\$ 28,129,835</u></u>	<u><u>\$ 24,038,268</u></u>

* Reconstructed for comparative purposes.

TO THE SHAREHOLDERS OF THE KROGER CO.

There is submitted herewith the report of Certified Public Accountants with respect to the financial statements of the company as made by them at our suggestion.

We hope that this may be helpful in connection with your appraisal of the accompanying financial statements and policies of the company.

Respectfully submitted,

Board of Directors

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

CINCINNATI 2, OHIO

TO THE BOARD OF DIRECTORS,
THE KROGER CO.,
CINCINNATI, OHIO.

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as at December 27, 1947 and the consolidated statement of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended, have reviewed the systems of internal control and the accounting procedures of the companies, and without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

Cash consists of monies in store tills, in transit, and on deposit in 1,292 banks. The amount is not in excess of that required for current operating purposes.

Receivables consist of amounts due from vendors, customers, employees and others, all arising from normal business transactions. Substantially all of these accounts represent current transactions. The management is of the opinion, with which we concur, that as at December 27, 1947 the receivables appear fully collectible. It has been the company's consistent policy to charge losses, if any, to current operations, when they have occurred. In prior annual statements allowances for losses have been deducted from the receivables. This allowance at December 27, 1947, \$146,029, has been transferred to, and is included in the Accumulated Earnings Appropriated for Contingencies, which is commented on in a subsequent paragraph.

Inventories of merchandise were warehoused or otherwise cared for in an orderly manner. Slow moving merchandise which was a comparatively small amount at December 27, 1947 was written down to realizable values. Commitments for merchandise to be shipped subsequent to December 27, 1947 do not appear to be in excess of requirements for current operations.

Store and general supplies, prepaid insurance, rent and taxes are, we believe, self explanatory. They will be charged to future operations.

The investment in Manufacturers and Merchants Indemnity Company, an insurance company licensed under the laws of the State of Ohio, represents the entire capital stock of that company other than the directors' qualifying shares. At December 31, 1947, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to \$1,530,466. Total assets of the insurance company, so determined, amounted to \$3,516,549, consisting principally of cash, U. S. Government securities and other marketable securities aggregating \$3,173,046. Operations of the insurance company for the year 1947 resulted in a loss of \$55,533. No dividends were declared or paid by the insurance company during 1947.

Stocks in other companies, acquired in prior years, produced dividend income during 1947 equal to 16 percent of the amount at which these stocks are carried on the company's books.

Land and buildings are stated at cost less \$1,912,887, the applicable portion of a net appraisal write-down charged to surplus in 1932. Ninety-four percent of the company investment in land and buildings was acquired prior to World War II. The company has continued its policy of leasing stores, warehouses and manufacturing buildings whenever possible, rather than investing its funds in such assets. Leasehold improvements are charged to operations during the year in which they are made. Depreciation on fixed assets has been provided at rates which, in accordance with the company's experience, will amortize the cost thereof over the useful lives of such assets. Depreciation for the current year amounted to \$3,167,390.

Notes payable are held by 30 banks all located in cities in which Kroger operates. These notes are due sixty days from dates of issuance.

Accounts payable and accrued expenses were incurred in the usual course of business and are not past due. Included in accrued expenses is \$1,668,135 representing earned vacation pay as of the year end.

We believe that the provision for Federal taxes, current and prior years, is adequate.

Employees' Benefit Fund was appropriated March 7, 1947 by stockholders' resolution which states in part "that to this reserve shall be added annually an amount equal to 5 per cent of the year end balance." The amount reserved is being utilized principally in the company's working assets.

The shares of preferred stock acquired by the company during the year have been retired.

Accumulated Earnings, formerly designated Earned Surplus, represent profits left in the business and are being utilized principally in working assets.

Accumulated Earnings Appropriated for Contingencies has been created by consolidating the reserves for contingencies, possible inventory losses and risks not covered by insurance shown on the 1946 balance sheet and the allowance for possible losses on receivables \$146,029. An additional appropriation of \$2,500,000 was made as at December 27, 1947. Such earnings appropriated are utilized principally in company working assets. Additions to and deductions from this account can be made only upon authorization of the Board of Directors.

In our opinion, the accompanying consolidated balance sheet and related consolidated statement of income and accumulated earnings present fairly the consolidated position of The Kroger Co. and subsidiary companies at December 27, 1947, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Cincinnati, Ohio,
February 6, 1948.

LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants

